

Section 16

Tax Incentives for Distressed Communities

In recent years, provisions have been added to the Internal Revenue Code (IRC) that target specific geographic areas for special tax incentives. The special tax incentives afforded these areas are designed to attract business and investment to distressed urban and rural areas. You may be eligible for one or more of the following credits:

Empowerment Zones: The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) authorized a number of distressed geographic areas to be designated as empowerment zones. The Taxpayer Relief Act of 1997 and The Community Renewal Tax Relief Act of 2000 authorized additional zones.

- Employment credit of 20% for the first \$15,000 of qualified wages for each qualified employee per year.
- Additional Section 179 deduction of up to \$35,000 in 2002 and later years for qualified business assets.
- Tax-free rollover of certain gains from sale of empowerment zone assets.
- Increased exclusion of gain of 60% on qualified small business empowerment zone stock.
- Tax-exempt bond financing for enterprise zone facility bonds to raise funds to provide enterprise zone businesses with qualified zone property.

Enterprise Communities: The Secretary of the Department of Housing and Urban Development (HUD) and the Secretary of the U.S. Department of Agriculture (USDA) designated ninety-five enterprise communities as urban and rural zones effective December 21, 1994.

- Enterprise communities are eligible only for the expanded tax-exempt financing benefits available in Empowerment Zones.
- Many have been subsequently re-designated as empowerment zones or renewal communities and are no longer designated as enterprise communities.

District of Columbia Enterprise Zone: The Taxpayer Relief Act of 1997 included a special set of incentives to help redevelop the District of Columbia.

- A 20% wage credit for the first \$15,000 of qualified wages for each qualified employee per year.
- Additional Section 179 deduction of up to \$35,000 in 2002 and later years for certain qualified business assets.
- Expanded tax exempt financing for certain zone facilities.
- Zero-percent capital gains for DC zone assets held more than five years.

- First-time homebuyer tax credit of up to \$5,000.

Renewal Communities: As part of the Community Renewal Tax Relief Act of 2000, 40 renewal communities were designated by HUD.

- Employment credit of 15% for first \$10,000 of qualified wages for each qualified employee per year.
- Additional Section 179 deduction of up to \$35,000 for qualified renewal property.
- Capital gain exclusion for qualified community assets held more than five years.
- Commercial revitalization deduction of half of the capital expenses in first year the qualified revitalization building is placed in service or amortize the capital expenses over a 120-month period.

New York Liberty Zone (NYLZ): The Job Creation and Worker Assistance Act of 2002 included a special set of incentives to meet the unique challenges facing New York City due to the tragedy of September 11, 2001.

- Zone employees designated as new targeted group for Work Opportunity Tax Credit (WOTC).
- Additional Section 179 deduction of up to \$35,000 for certain qualified business assets.
- Access to tax-exempt private activity bonds to finance real property construction and rehabilitation.
- Additional first-year depreciation equal to 30% of basis for qualified zone property.
- Qualified leasehold improvement property depreciated using straight-line method for five years.
- Replacement period for property damaged or destroyed by terrorist action extended to five years

Economic Development on Indian Reservations: The Job Creation and Worker Assistance Act of 2002 extended two tax benefits for Indian reservations that were due to expire in 2003, until the end of 2004.

- Indian employment wage credit of 20% for the first \$20,000 wages and health insurance costs above the amount paid in 1993.
- Accelerated depreciation of qualified property used on Indian reservations.

Other Credits Extended: The Job Creation and Worker Assistance Act also extended the following benefits:

- Qualified Zone Academy Bonds, issued by state or local governments, allow certain businesses to receive a tax credit as an incentive to hold bonds for public school (Qualified Zone Academy) improvement in empowerment zones or enterprise communities.
- Work Opportunity Tax Credit (WOTC) allows a maximum credit of up to 40% of the first \$6,000 of the wages for a targeted group employee.
- Welfare-to-Work Credit allows a maximum credit of up to 35% of the initial \$10,000 of first year wages and up to 50% of the first \$10,000 of eligible wages for the second year for a long term-family assistance recipient.

Additional incentives available:

- Environmental Cleanup Cost Deduction (Brownfields) permits a current year deduction for certain remediation costs for hazardous site cleanup costs.
- New Markets Credit provides a tax credit over seven years for qualified equity investments made after December 31, 2000, in businesses located in low income communities.
- Low Income Housing Credit allows a credit over ten years to investors in qualified low-income rental units.

Last revision as of 07/24/2002. For more information on the Tax Incentives for Distressed Communities, see [Publication 954](#), Tax Incentives for Empowerment Zones and Other Distressed Communities.